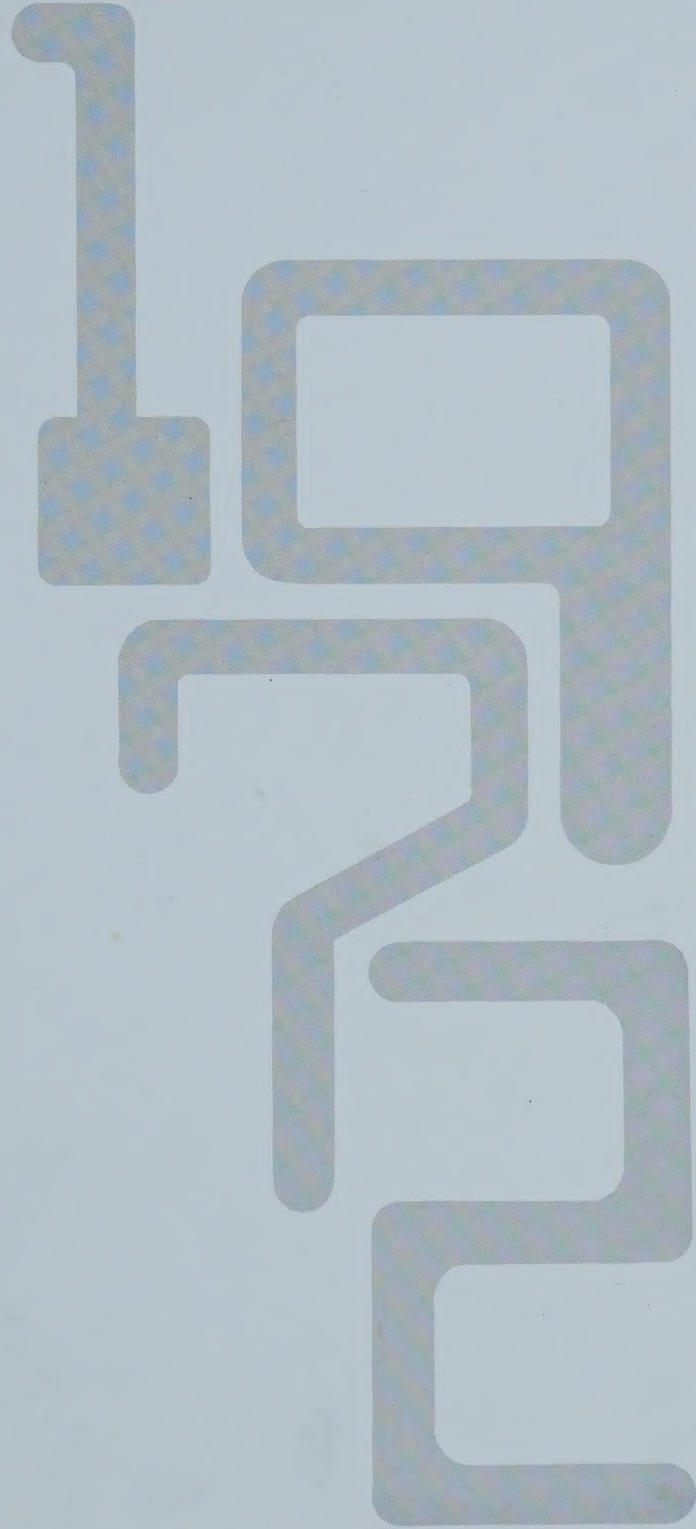


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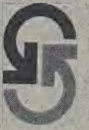
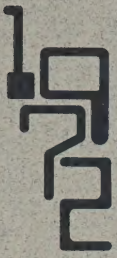


computel 

Annual Report







## To the Shareholders

Computel's sales for the year ended August 31, 1972 rose to \$5,155,585, up 48% from \$3,571,885 for the corresponding period a year earlier; the loss for the fiscal year was \$247,488 as compared with \$1,283,410 before extraordinary items, for the previous year.

The fourth quarter resulted in a profit of \$100,021 bringing the earnings for the final six months of the year to 26¢ per share before taxes.

The positive cash flow from operations was \$970,503. The Company's long term debt was reduced by \$454,969 and working capital during the year increased by \$620,679.

### IBM 370/165 - 168

In response to the increased demand for its services, Computel has taken delivery in Ottawa of an IBM System 370 Model 165, which will be replaced, as soon as deliveries begin next fall, by a 370/168, the newest of IBM's large scale computer systems.

The 370/168 is as much as 30% faster than the 370/165, yet it is less expensive; it is also more powerful than any computer presently installed in Canada.

The new System 370/168 will enable Computel to provide its customers with the benefits of the "virtual storage" Operating System, which has been described by IBM's President, Frank T. Cary, as "among the most significant developments in computer history."

The new equipment, supported by the existing IBM 360/65 facilities, will ensure Computel's customers of a continuity of operation for current applications while making available to them the latest in technological advances for their future programs.

### ISD

Information Systems Design (ISD), Computel's wholly-owned subsidiary, located in Oakland, California, attained a profitable level of operation in the latter part of the year. An attractive financial arrangement with a leasing company has enabled ISD to recently add a second UNIVAC 1108 to the Oakland facility.

Demand for ISD's services in the San Francisco Bay area is strong. Growing demand elsewhere on the West Coast has led to the opening of marketing offices in Los Angeles and Vancouver.

### New Offices

With increased activity in Ottawa, Computel has recently enlarged the St. Laurent Computer Centre to accommodate the IBM 370/165 and to provide for the move of the UNIVAC 1108 from downtown Ottawa to St. Laurent.

New client facilities have also been added at St. Laurent for those clients who prefer to work at the Computer Centre, within easy reach of Computel's support personnel.

### People

Computel has assembled a team of competent personnel, who, with their skills and dedication, represent a major element of the Company's strength.

Robert T. Horwood  
President.

October 24, 1972.





## Consolidated Balance Sheet - August 31, 1972

	1972	1971
<b>Assets</b>		
Current:		
Cash	\$ 49,478	\$ 64,649
Short-term investments (at cost which approximates market)	500,000	350,000
Accounts receivable (note 5)	1,195,755	664,866
Prepaid expenses	99,527	64,031
	<u>1,844,760</u>	<u>1,143,546</u>
Fixed, at cost:		
Computer and ancillary equipment (note 4)	9,404,514	9,688,803
Furniture and fixtures	192,463	193,511
Leasehold improvements	231,054	230,197
	<u>9,828,031</u>	<u>10,112,511</u>
Less: accumulated depreciation	<u>3,762,492</u>	<u>2,770,348</u>
	<u>6,065,539</u>	<u>7,342,163</u>
Other, at cost less amortization:		
Bond, debenture and share issue expenses	216,394	245,146
Goodwill	59,241	77,001
Incorporation expense	5,772	5,772
	<u>281,407</u>	<u>327,919</u>
	<u>\$8,191,706</u>	<u>\$8,813,628</u>

On behalf of the Board:

Robert T. Horwood      Director

Ronald T. Lane      Director





# computel systems ltd.

(Incorporated under the laws of Canada)  
and its wholly-owned subsidiaries

## STATEMENT 1

	1972	1971
<b>Liabilities and Shareholders' Equity</b>		
Current:		
Accounts payable and accrued charges	\$ 458,869	\$ 431,767
Accrued interest payable	124,787	127,372
Taxes payable	40,218	35,407
Current portion of long-term debt	453,984	402,777
	<u>1,077,858</u>	<u>997,323</u>
Long-term debt (note 2)	5,412,294	5,867,263
<b>Shareholders' equity:</b>		
Share capital (note 3)		
Authorized:		
1,000,000 common shares without nominal or par value		
Issued:		
598,078 shares	4,298,056	4,298,056
Deficit (statement 2)	(2,596,502)	(2,349,014)
	<u>1,701,554</u>	<u>1,949,042</u>
	<u>\$8,191,706</u>	<u>\$8,813,628</u>





## STATEMENT 2

**Consolidated Statement of Income and Deficit  
for the Year Ended August 31, 1972**

	1972	1971
<b>Income:</b>		
Computer time and related charges	\$5,020,741	\$3,436,537
Leasing contract revenue	114,020	101,424
Interest income	20,824	33,924
	<u>5,155,585</u>	<u>3,571,885</u>
<b>Expenses, including depreciation:</b>		
Operating costs	3,902,428	3,356,444
Administrative, marketing and systems expenses	1,053,707	1,035,459
Interest on long-term debt	446,938	463,392
	<u>5,403,073</u>	<u>4,855,295</u>
Loss for the year before extraordinary items	247,488	1,283,410
<b>Extraordinary items:</b>		
Gain on retirement of debentures having a par value of \$1,000,000		(445,042)
Write-off of fixed assets applicable to Toronto branch operations		125,483
Net loss for the year	247,488	963,851
Deficit, beginning of year	2,349,014	1,385,163
Deficit, end of year	<u>\$2,596,502</u>	<u>\$2,349,014</u>





# computel systems ltd.

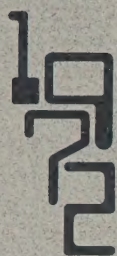
and its wholly-owned subsidiaries

## STATEMENT 3

### Consolidated Statement of Source and Application of Funds for the Year Ended August 31, 1972

	1972	1971
<b>Source of funds:</b>		
From operations:		
Loss for the year	\$ (247,488)	\$ (963,851)
Depreciation	1,103,858	1,095,889
Amortization of bond, debenture and share issue expenses	23,364	24,939
Amortization of goodwill	17,760	11,850
Loss on sale of fixed assets	67,621	
Write-off of fixed and other assets	5,388	149,538
Gain on retirement of debentures		(445,042)
Total funds from operations	970,503	(126,677)
Sale proceeds of fixed assets	150,056	
Shares issued		44,226
Issues of long-term debt		1,130,000
	1,120,559	1,047,549
<b>Application of funds:</b>		
Purchase of fixed assets	44,911	364,842
Purchase of shares in subsidiary		203,030
Reduction of long-term debt	454,969	955,208
Increase in other assets		3,768
	499,880	1,526,848
<b>Increase (decrease) in working capital during the year</b>	<b>\$ 620,679</b>	<b>\$ (479,299)</b>





## Notes to the Consolidated Financial Statements August 31, 1972

### 1. Principles of Consolidation

The consolidated financial statements include the accounts of Computel Leasing Ltd., Ottawa, Ontario, and Information Systems Design, Oakland, California, the Company's wholly-owned subsidiaries.

### 2. Long-Term Debt

	1972	1971
Total long-term debt	\$5,866,278	\$6,270,040
Less current portion	453,984	402,777
	<u>\$5,412,294</u>	<u>\$5,867,263</u>

#### Bonds—\$578,000

Under the terms of the Trust Deed securing the 9% first mortgage sinking fund bonds, annual sinking fund instalments of \$193,000 are required from January 15, 1973 to January 15, 1975. In addition, the Company may, at its option, redeem bonds at any time prior to maturity at prices ranging from 103.0% of the

principal amount if redeemed on or before January 15, 1973, to 100% of the principal amount if redeemed after January 15, 1974.

#### Debentures—\$4,000,000

Under the terms of the Trust Indenture securing the 6% convertible subordinated debentures, the Company is required to retire through the operation of a sinking fund, \$500,000 principal amount of debentures in each of the years 1980 to 1987 inclusive. These debentures are convertible into common shares at a conversion rate of 28 shares for each \$1,000 principal amount of debentures at any time prior to September 15, 1978. In addition, the Trust Indenture provides that the Company may at its option redeem debentures at any time prior to maturity at prices ranging from 104.8% of the principal amount if redeemed on or before September 14, 1972, to 100% of the principal amount if redeemed after September 14, 1987.

The Company may not pay any cash dividends on its common shares until all of the first mortgage bonds and the convertible subordinated debentures have been retired.

#### Other long-term debt —

10¼% chattel mortgage on the IBM 360/65 equipment due January 15, 1976, with interest payable semi-annually.

\$500,000

9½% promissory note repayable in monthly instalments accelerating from \$2,000 to \$3,500 principal and interest, and a final payment on July 1, 1974 of \$11,805.

\$69,326

5% promissory note payable in January and July of each year, the final payment being January 1, 1975. The note may be prepaid by the Company at any time and has a convertible feature which cannot be exercised prior to January 2, 1973 except to a limited extent. The conversion price is \$5.00 (U.S.) per share.

\$225,000

Purchase contracts outstanding are payable as follows:

1. 30 monthly instalments of principal and interest of \$9,550 at 9.3% per annum.
2. 40 monthly instalments of principal and interest of \$6,954 (U.S.) at 10% per annum.

\$254,869

\$239,083

Principal repayment for the next five years of long term debt outstanding as at August 31, 1972 is as follows:

1973	\$453,984
1974	509,573
1975	375,357
1976	527,364
1977	NIL





# computel systems ltd.

and its wholly-owned subsidiaries

## 3. Share Capital

Under the terms of an employee stock option plan, options have been granted to certain employees of the Company to purchase in the aggregate 14,000 shares at \$10.00. These options expire at various dates to September 12, 1977.

A total of 166,000 shares have been reserved for the conversion of the 6% convertible subordinated debentures, the 5% promissory note and employee stock options.

## 4. Computer and Ancillary Equipment

The Company owns three major computer systems and other computer equipment as follows:

	Cost	Accumulated Depreciation	Net book Value
Ottawa 1108	\$3,215,055	\$1,355,807	\$1,859,248
Ottawa 360/65	2,653,629	962,327	1,691,302
California 1108	2,316,653	752,239	1,564,414
Other equipment	1,219,177	384,628	834,549
	<u>\$9,404,514</u>	<u>\$3,455,001</u>	<u>\$5,949,513</u>

Depreciation of computer and ancillary equipment has been provided on the basis of an eight-year life with provision for a 15% residual or salvage value.

## 5. Commitments

The Company occupies leased premises under agreements of up to five years' duration. In addition, the Company leases equipment and has contracted for prime shift maintenance services for its computers. All lease agreements are for a period of one year or less. Based on lease agreements and maintenance contracts in existence at August 31, 1972, the commitment for 1973 is expected to be \$2,475,000 (1972- \$1,503,000). The future commitments include a lease

agreement for the rental of an IBM 370 Model 165 from November, 1972.

Security has been provided to the lessor of the IBM 370 Model 165 in the form of a \$250,000 letter of credit from the Company's bank. A general assignment of book debts of the Canadian operations has been given to the bank to secure the letter of credit.

The Company is expanding its Ottawa facilities at an estimated cost of \$300,000. The new premises will accommodate all of the existing computer equipment in Ottawa in addition to providing for the installation of the IBM 370 Model 165 and for expanded client facilities.

## 6. Statutory Information

The Company has nine directors and four officers, three of whom are directors. Remuneration paid during the year to the officers amounted to \$106,000 (1971 - \$104,000). No remuneration was paid to directors as such.

## 7. Legal Action

Information Systems Design has filed a complaint against a competitor and certain individuals seeking injunctive relief and damages for alleged theft of trade secrets and confidential information, interference with advantageous business relations

and unfair competition. A jury trial was held on the complaint in August, 1972 and the jury has rendered a verdict in favour of ISD in the sum of \$300,500. However, the verdict of the jury remains subject to the power of the trial judge to change or set aside and to any motions or appeals made by the defendant. The defendant has moved for a new trial of the action and for judgement notwithstanding the verdict. A hearing has been held on such motions and the trial judge has taken the matter under submission. For this reason, no accrued legal expenses relating to this legal action have been included in the financial statements. Estimated legal fees relating to this year of \$71,000 and any future expenses will be offset by the amount of the settlement.

## 8. Loss Carry-Forward

The Company has written depreciation in the accounts in amounts greater than capital cost allowance claimed for tax purposes. The difference, together with the loss carry-forward, is available to reduce taxes payable in the future.

## 9. Loss Per Share

The net loss per share calculated on the number of shares outstanding during the year is \$0.41 (1971 - \$2.15, after extraordinary items is \$1.62).





### **Auditors' Report**

To the Shareholders of Computel Systems Ltd.

We have examined the consolidated balance sheet of Computel Systems Ltd. as at August 31, 1972 and the consolidated statements of income and deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ottawa, Canada,  
October 13, 1972.

*Clarkson, Gordon & Co.*  
Chartered Accountants.

### **Directors**

Frederick B. Brooks-Hill  
Christopher G. Fleming  
Robert C. Heilig  
Robert T. Horwood  
Ronald T. Lane  
Charles E. O'Connor  
Robert N. Steiner  
Andrew M. Wyszkowski

### **Officers**

President and Chief Executive Officer  
Robert T. Horwood  
Executive Vice-President and  
General Manager  
Ronald T. Lane  
Vice-President, Systems  
Andrew M. Wyszkowski  
Secretary  
Robert A. Skene

### **Auditors**

Clarkson, Gordon and Co.

### **Registrar and Transfer Agent**

Canada Permanent Trust Company

### **Listing**

Toronto Stock Exchange

### **Offices and Principal Equipment**

1200 St. Laurent Boulevard, Ottawa  
222 Laurier Avenue West, Ottawa  
100 University Avenue, Suite 1001, Toronto  
Place du Canada, Suite 1210, Montreal  
7817 Oakport Street, Oakland, California

IBM 370/165, IBM 360/65 and Executive Offices  
UNIVAC 1108  
Terminal/Marketing  
Terminal/Marketing  
UNIVAC 1108











## INFORMATION CIRCULAR

### SOLICITATION OF PROXIES

The information contained in this circular is furnished in connection with the solicitation by the management of Computel Systems Ltd. (the "Company") of proxies to be used at the annual meeting of the shareholders of the Company called for the purposes set forth in the accompanying notice of meeting and to be held in the Alberta Room of the Royal York Hotel in Toronto, Ontario, on Wednesday, the 6th day of December, 1972 at the hour of 2:30 o'clock in the afternoon and at any adjournment or adjournments thereof. It is expected that the solicitation will be primarily by mail. The cost of such solicitation will be borne by the Company.

### APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors of the Company. A shareholder desiring to appoint some other person to represent him at the meeting may do so, either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company before the time of the meeting. The person to whom the proxy is granted need not be a shareholder of the Company.

A shareholder who has given a proxy may revoke it either (a) by signing a proxy bearing a later date and delivering it to the Secretary of the Company before the time of the meeting, or (b), as to any matter on which a vote shall not already have been cast pursuant to the authority conferred by such proxy, by signing written notice of revocation and delivering it to the Secretary of the Company or the Chairman of the meeting.

### EXERCISE OF DISCRETION BY PROXIES

The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in accordance with the direction of the shareholders appointing them. In the absence of such direction, such shares will be voted for the approval of the directors' report and financial statements, and for the election of directors and the appointment of auditors as stated under those headings in this circular. The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting, and with respect to other matters which may properly come before the meeting. At the time of printing this

circular the management of the Company knows of no such amendments, variations or other matters to come before the meeting other than the matters referred to in the notice of meeting. However, if any other matters which are not now known to the management should properly come before the meeting, the form of proxy will be voted on such matters in accordance with the best judgement of the persons voting the proxy.

### VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The holders of common shares without nominal or par value in the capital stock of the Company of record at the time of the meeting are entitled to one vote for each share held. As at October 26th, 1972, there were outstanding 598,078 common shares without nominal or par value.

The date of the mailing of this information circular and the accompanying notice of meeting and form of proxy will be the record date for the determination of the persons who shall receive notice of the meeting.

### ELECTION OF DIRECTORS

The board consists of nine directors to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Eight of the said nominees for election to the board of directors are currently members of the board and have been since the dates indicated. Management does not contemplate that any of the nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next annual meeting or until his successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of the Company.

The following table contains the names of all of the persons proposed to be nominated for election as directors, all other positions and offices with the Company now held by them, their principal occupations or employments, the year in which they became directors of the Company, and the approximate number of common shares of the Company beneficially owned directly or indirectly by each of them as of October 26th, 1972:



<i>Name, Address and Office</i>	<i>Date of Election</i>	<i>Principal Occupation</i>	<i>No. of Shares (Common)</i>
ROBERT T. HORWOOD, 28 Monkland Avenue, Ottawa, Ontario. President and Director	Nov. 8/67	President of the Company	51,500
FREDERICK B. BROOKS-HILL, 41 Second Street, Oakville, Ontario. Director	Nov. 8/67	Investment Vice-President, Confederation Life Insurance Company	3,000
CHRISTOPHER G. FLEMING, 620 Fourth Avenue W., Owen Sound, Ontario. Director	April 16/68	President and General Manager, Richardson, Bond & Wright Ltd.	75
CHARLES E. O'CONNOR, 1972 Norway Crescent, Ottawa, Ontario. Director	July 10/68	Partner, Gowling & Henderson, Barristers and Solicitors	300
ROBERT N. STEINER, Mill Road, Ancaster, Ontario. Director	Nov. 8/67	Senior Partner, A. E. Ames & Co.	2,500
ANDREW M. WYSZKOWSKI, 485 Broadview Avenue, Ottawa, Ontario Vice-President of Company and Director	Feb. 27/70	Vice-President of the Company	3,202
RONALD T. LANE, 747 Eastbourne Avenue, Ottawa, Ontario. Executive Vice-President, General Manager and Director	Feb. 27/70	Executive Vice-President and General Manager of the Company	7,565
ROBERT C. HEILIG, 38 Farmview Crescent, Willowdale, Ontario. Director	Feb. 27/70	Underwriting Executive, A. E. Ames & Co. Limited	5
ROBERT A. SKENE 15 Carr Crescent, Kanata, Ontario. Secretary and Controller of Company and Director		Secretary and Controller of the Company	2,172

Persons listed above were elected directors of the Company at the last Annual Meeting of shareholders with the exception of Robert A. Skene.

Robert A. Skene, presently Secretary and Controller of the Company, has been employed with the Company since June, 1969. Prior to joining the Company, he had been employed by Canadian Breweries Limited in various capacities since 1966.

The information as to shares beneficially owned, not being within the knowledge of the Company as such, has been furnished by the individual directors.

#### REMUNERATION OF MANAGEMENT

Directors as such receive no remuneration for such services. During the fiscal year ending August 31st, 1972, the aggregate direct remuneration paid or payable by the Company and its subsidiaries to all officers as a group was \$106,000.

The Company has not incurred and does not at this time contemplate incurring any costs for pension benefits to Directors or officers as a group.

#### APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the re-appointment of Messrs. Clarkson, Gordon & Co., Chartered Accountants, as auditors of the Company to hold office until the next annual meeting of shareholders, at a remuneration to be fixed by the Board of Directors. Messrs. Clarkson, Gordon & Co. were first appointed auditors of the Company on September 20th, 1967.

Dated at Ottawa the 26th day of October, 1972.